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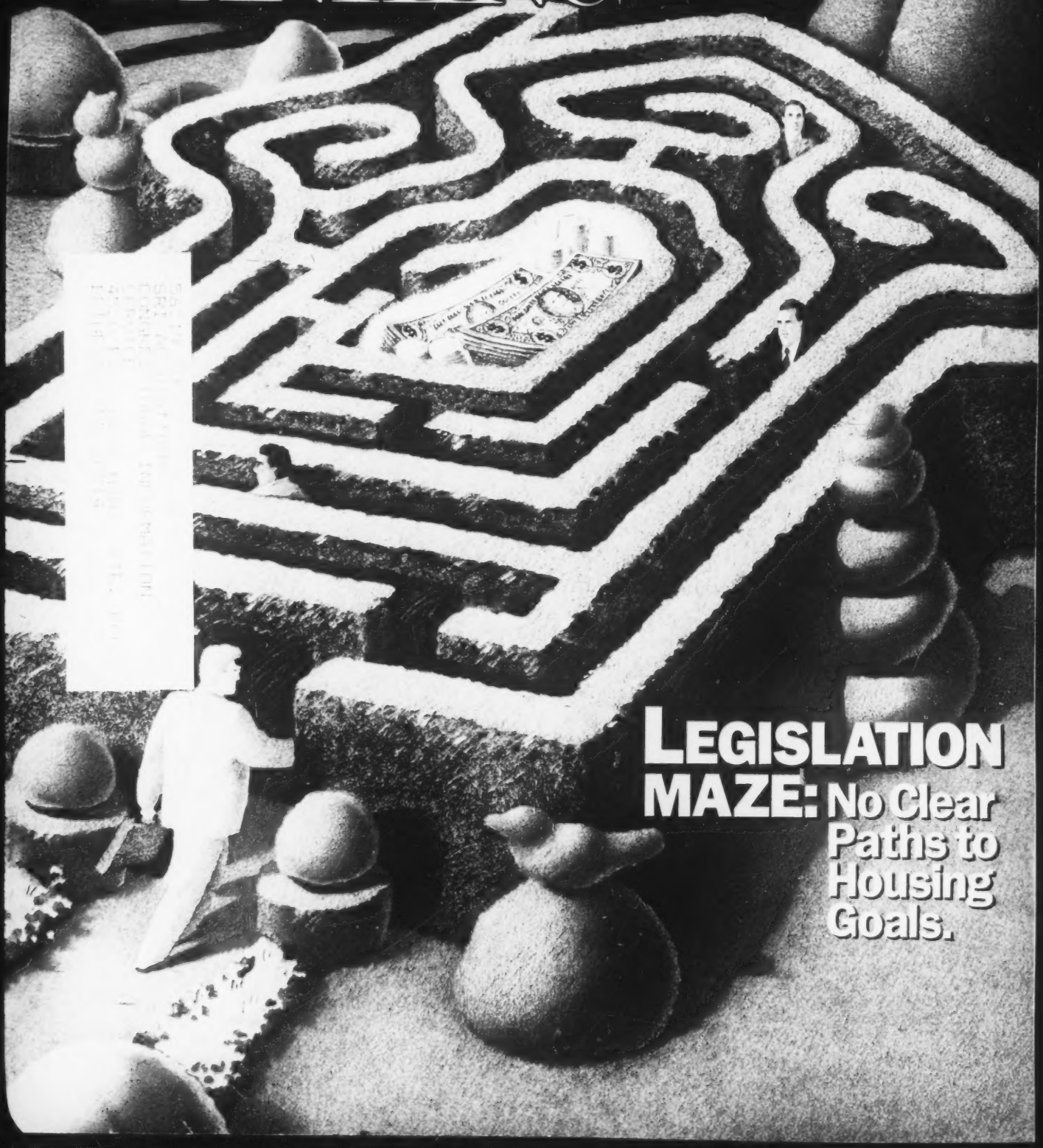
MORTGAGE BANKING

MARCH 1989



LEGISLATION MAZE: No Clear Paths to Housing Goals.

CONTENTS

MARCH 1989 VOLUME 49 NUMBER 6

COVER: The Legislative Maze

In brief terms, the future of housing in America will be highly dependent upon affordability. Will the downward curve that has continued for the past eight years be turned around? How that question is answered will be highly dependent upon the housing policies set by Congress and the executive branch. There are many excellent solutions in the offing, from more flexible FHA terms to tax reform on low- and moderate-income housing. Yet, these solutions face formidable obstacles before they can become reality

14 Legislative Outlook *The 101st session of Congress got off to a positive housing start. But budget constraints and opposing views may hold up any quick action.* By JOSEPH C. DAWSON

22 Congressional Insight *The new chairman of the House Banking Committee, Congressman Henry B. Gonzalez and Congressman John J. LaFalce express their thoughts about housing.*

28 HUD's Jack Kemp Moves In *HUD Secretary Jack Kemp's first days in office began smoothly with a clear set of priorities.*

38 The S&L Bailout Plan *President George Bush's S&L recommendations are seen by industry experts as offering both opportunity and problems.* By H. BYERS KALTENHEUSER, JR.

Management — **47 Secrets of Successful Loan Officers** *Twelve top loan originators share their experiences in making it to the top.* By HOWARD SCHNEIDER

Servicing — **59 Evaluating Servicing Performance** *Peat Marwick's survey of 18 lenders explains how to identify strengths and weaknesses in the servicing department.* By GREGORY A. BALDRIDGE

Survey — **63 The Mind of the Realtor** *The thinking patterns of Realtors are not always examined properly by lenders.* By JOHN C. CAMPBELL AND DONALD W. LIEF

Servicing — **69 Economies of Scale and Profitability** *Size is not the only factor in determining the bottom line.* By VICTOR CHOLEWICKI

Regulatory — **79 HUD's New Coinsurance Program** *Nursing homes offer great potential for mortgagors, but there are pitfalls in HUD's new plan to spur the market.* By W. THOMAS BOOHER AND HENRY J. BROTHERS

Mergers & Acquisitions — **85 The Perils of Acquisition** *The service bureau conversion department's involvement may make or break a transaction.* By THOMAS JARRETT

Strategy — **89 The New Economics of Mortgaging** *New rules set by industry leaders will determine how individual firms should compete.* By JOHN P. MARA

DEPARTMENTS

9 LETTERS
11 BUSINESS ALERT
96 PEOPLE
99 THE SECONDARY MARKET
101 ECONOMIC TRENDS
106 INDEX TO ADVERTISERS

COVER ILLUSTRATION BY ANNIE LUNSFORD

Legislative Winds of Change

The 101st session of Congress had hardly begun before a number of truths became self-evident. If there were a State of the Union address covering only housing policy, it would spell out these emerging truths as follows.

A sincere, bi-partisan desire now exists for solving housing problems.

Housing policy makers on Capitol Hill and in the executive branch recognize how critical these problems are and what they portend for America.

Finally, vigorous political leadership is in place to attack the issues—HUD Secretary Jack Kemp—the Senate's Alan Cranston and Al D'Amato—the House's Henry Gonzalez. Powerful. Creative. Goal-driven. High-energy levels. These are descriptive adjectives that apply to them all.

But our cover story makes clear, this may not be enough to ensure passage of a comprehensive, effective legislative housing package any time soon. This issue explores the policy obstacles, as well as the opportunities. We take a look at the leaders whose decisions will count. And we also examine how President Bush's S&L bailout plan may affect mortgage bankers.

On other matters, the economics of mortgage finance are changing rapidly and dramatically. This generic theme is examined in articles on the economies of scale, the new economics of mortgaging, the perils of loan acquisition and servicing evaluation. We also take a good look at the mind of a Realtor, and explore the secrets of successful loan officers.

Janet Reilley Hewitt
Editor

COMING IN APRIL

The Secondary Mortgage Market

To continue a good spring start, our upcoming issue will include a number of useful articles on the secondary market, from evaluating your secondary market results to potential legal pitfalls when making secondary market transactions. We also look at innovative approaches to affordable rental housing, and how a mortgage company of the future might prosper.

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THE S&L BAILOUT PLAN

Most mortgage bankers welcome President Bush's S&L proposal. If enacted by Congress, it could have a positive impact on private lenders.

H. Byers Kaltenheuser, Jr.

President George Bush's S&L bailout plan, if passed by Congress, could prove to be a welcome relief for private mortgage banks, but not without some costs to the banks and to their customers. Overall, mortgage bankers contacted said the plan, given the costs, complexity and seriousness of the problems, was a reasonable one. And they are pleased the new President acted on the problems so swiftly.

Breifly, the President's proposal would:

- Provide for a government takeover of 350 troubled thrifts;
- Allow a takeover by the Treasury Department of the Federal Home Loan Bank Board, that regulates the nation's 3,100 S&Ls. The Federal Deposit Insurance Corporation would take administrative control of the Federal Savings and Loan Corporation, the thrift insurance fund. The FDIC would manage the S&Ls brought into receivership.
- Establish a new government agency to sell $50 billion of long-term bonds to cover the cost of the bailouts. S&L's would be responsible for the principal, and a portion of the $5 billion in interest payments would be picked up by the government. Banks and thrifts would pay higher premiums for federal insurance, but most of these costs would be passed on to depositors.

FDIC toughness

The rationale for the proposal is that FDIC, which insures deposits made at commercial banks, is a tough regulator and more experienced at handling bank failures than the FHLBB and the FSLIC. With 4,000 employees in the liquidation division, FDIC has been closing down from 100 to 200 banks a year. FHLBB and FSLIC, on the other hand, are perceived as not having the capabilities to deal with the present crisis.

James Pygman, senior vice president for Real Estate Research Corporation, Chicago, said he welcomed the President's proposal. "What you will see after all this is through is a more mature S&L industry, without so much risk-taking and predatory practices," he said. Pygman said the S&L crisis was similar in some respects to the real estate investment trust scandals of the mid-1970s that took more than five years to resolve and in some cases is still going on. "One problem is you have many good S&Ls out there, and they have all been painted with the same tar brush. The good ones will be much better off when this is all over," he said. On the other hand, Pygman said the proposal would mean higher costs for everyone involved in home lending and borrowing.

Somewhat the same assessment was given by James W. Wooten, chairman of Lomas Mortgage USA, Dallas. Wooten said he was pleased the President stepped up to the problem as quickly as he did, and that the proposal represented a reasonable solution to a very complex problem. When and if the plan is enacted, Wooten said, many S&Ls "will be initially less aggressive in their marketing mortgage efforts because they will be engulfed in straightening out their problems. They'll be looking at what they bought and what it means." Wooten says he expects everyone will be a "little tougher on all fees to customers."

Wooten said the increased costs to S&Ls, and a limit on their operations, could affect their competitiveness. "They will have to ask themselves," he said, "how can we be competitive at increased costs?"

Albert C. Kocourek, president of First Advantage Mortgage Corporation, Columbia, Maryland, welcomed the plan. "I'm very pleased that a concrete proposal is on the table that looks like it makes sense. It may not please everyone, but it will go a long way to solving the problem. Some of

ILLUSTRATION BY ERIC WESTBROOK

the convoluted package is obviously political, with its off-budget disguise, but that's fine if that's what it takes to sell it. I assume that the government will stop masking problems by getting rid of regular accounting procedures and basing audits on generally accepted accounting procedures that would no longer make S&Ls look better than they are. Mortgage bankers will clearly benefit if S&L abuses are addressed and the industry is stopped from pricing products as if it had nothing to lose, which it didn't as long as it could count on a taxpayer bailout. With S&Ls as subsidized players, the entire housing system was weakening as the financial structures of mortgage institutions took a beating. Given the S&Ls large share of the market, they pulled everyone down.

Consolidation trend

Kocourek was one of a number of mortgage banking executives who said that there wasn't any more need for a separate S&L industry. "Banks can do it all," he said, "and their abuses are nothing like the widespread corruption in the S&L industry. The solid, excellently run S&Ls are already in transition to becoming well-run banks with a retail customer base while keeping mortgages as their primary investment. A great deal of consolidation will result, and the biggest problem will be obtaining the required capital. The good news is that the new risk-based capital rules favor mortgages and mortgage securities."

Possible congressional delays concerned C. William Blomquist, president of Perpetual Mortgage in McLean, Virginia. "My concern is the loss of confidence major delays might convey, that they result in a major runoff of deposits to stocks and money market funds, that could drive up interest rates. I don't see a major effect on the consumer. In the short run, the loss will center on dividends and profits. Hopefully, this will be behind us in three years."

In nearby Fairfax, Virginia, Rich Becker, executive vice president of James Madison Mortgage, says he hopes that sensibility in pricing will evolve. "Now," he said, "there is no way the secondary markets can figure out the S&L teaser rates." Becker hopes the controls that will be imposed will eliminate specious gambling on ARM rates, where an S&L profits if rates are favorable, and shrugs the problems off to someone else if they are not.

Many experts believe a risk-free mentality is the heart of S&L problems. Bert Ely, a financial institutions consultant in Alexandria, Virginia, maintains that thrifts are harmed by the overcapacity that exists because of the perpetuation of insolvent thrifts. "We have too many organizations, too many offices and too big a deposit base out there. Had the thrifts been a normal industry, this overcapacity would have been liquidated some time ago."

Ely believes public policy failures have created a greenhouse for fraud, greed and mismanagement. He regards such activity as systematic, the root cause of an inherently flawed and actuarially unsound federal deposit insurance mechanism. "The drunk drivers of the banking and thrift worlds pay the same price for the deposit insurance as do their sober brethren," he says. Ely notes that thrifts now originate only half of home mortgages, with banks, mortgage bankers and credit unions doing the rest, without special government inducements.

Global considerations

Another expert, Gregg Edwards, director of the Academy for Advanced and Strategic Studies, a Washington-D.C. think tank, believes that any S&L solution consider global financial prob-

What Will Congress Do? When Will They Do it?

Congress has a number of reservations about President Bush's S&L proposals and a number of compromises are likely before a bill is enacted. That's the inital reaction from Capitol Hill.

Congressman Charles Schumer (D-NY), recently appointed chairman of a special House Budget Committee task force on urgent financial problems, predicted that the basic structure will prevail with some modifications added by Congress.

Schumer said he has reservations about the bond portion of the plan, that it will ulimately cost taxpayers a billion dollars more per year each of the next 30 years than if the Treasury simply handled it. "That's a pretty stiff price for 'reading my lips' and I hope Congress straigtens that out," Schumer said.

Congressman Henry Gonzalez (D-TX), new chairman of the House Banking Committee, says he is witholding judgment on the President's proposal until it has had a full hearing. Gonzalez believes the S&L industry should solve its own problem to the maximum extent possible. He believes Congress should protect small depositors from having major costs passed on to them in the form of fees and fears that the proposed deposit premiums could generate hidden costs that dwarf Treasury's earlier plan for a user fee. He also is concerned about the problem created by state-chartered S&Ls that have more leeway than those chartered by the federal government. He believes federal insurance should be witheld from any state chartered institution that does not abide by high federal standards.

Gonzalez's concern over state-chartered institutions is shared by Senator Donald W. Riegle (D-MI), chairman of the Senate Banking Committee. "The proposal must clearly restrict the kind of risky activities in the future that helped create the problem in the past. For example, many states permit state-chartered thrift institutions to exercise powers much broader than those of federally chartered S&Ls. If a savings and loan is going to be federally insured, then we clearly limit the risks to which it is exposed. I believe it's time for Congress—and not just the regulators—to make the basic decisions in this area," Riegle said. Otherwise, he added, the President's plan was "sensible and constructive."

The S&L proposals are clearly on a fast congressional track. Some optimists hope for passage by June, but others do not expect a comprehensive package to be passed until the fall.

lems that are accelerating at a rapid rate. "If an S&L is just local folks looking at real estate while ignoring a globally sophisticated financial system, you immediately have a culture gap," he says. He foresees increasing opportunities created for mortgage bankers who provide S&Ls with the ability to work out deals between global financial markets and local needs.

"There is a good potential for savvy mortgage bankers to pick up S&Ls that have not just the best loan portfolio but the best people portfolios in terms of developing sophistication and contacts. There will always be a niche in the financial industry that attracts people who seek a local connection. Traditionally the link has been land. Now the challenge is to provide a wider service to the local economy while dealing with global flows. If S&Ls remain local populist institutions in the banking community, it will not be a simple distinction of real estate. Who is going to be the Wal-Mart of banking?" Edwards asks.

CHART 1

S&Ls In Trouble

Thrifts with less than 1.5% capital	150
Assets	$137 billion
Tangible net worth	- $1.3 billion
1988 third quarter loss	$205 million
Thrifts with capital of $1.5% to 3%	254
Assets	$152 billion
Tangible net worth	$1.1 billion
1988 third quarter net loss	$34 million

Source: Federal Home Loan Bank Board, as of Sept. 30, 1988.

Graig Simmons, a thrift specialist for the General Accounting Office, said, "If we get an interest rate spike, a recession, or some other adverse development, these thrifts are very vulnerable."

However, Wade Nowlin, chief executive officer for the Nowlin Mortgage Company in Fort Worth, doesn't see any less competitiveness in the future resulting from the implementation of the President's proposal. "They have got all the bad ones already," he says, and he doesn't think the remaining S&Ls will lower their competitive efforts. **MB**

H. Byers Kaltenheuser is a Washington, D.C.-based lawyer who specializes as a writer on housing and finance.

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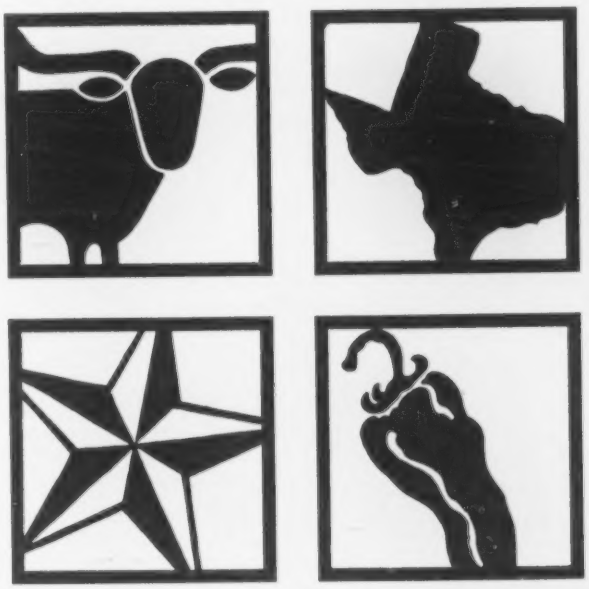

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Peat Marwick's in-depth survey of mortgage servicing produces a few surprises as well as guidance to spotting what's right and wrong.

EVALUATING SERVICING PERFORMANCES

Gregory A. Baldridge

During June 1988, KPMG Peat Marwick completed its second annual mortgage servicing performance study (MSPS) for the largest mortgage servicers in the country. The study involved data from 1987 and documented costs per loan, unit costs, productivity measures, reporting standards and key operating variables for 17 servicing functions. Using that information, participants gained a greater understanding of their relative strengths and weaknesses and have been able to enhance overall operating performance. With servicing executives under significant competitive pressure to generate additional profits, this information has helped them develop new insights and communicate new procedures or trends in the business.

The foundation of the study was the impressive group of companies involved in the effort. Of the 18 participants, seven were among the top ten residential servicers in the country, and all of the companies serviced at least 80,000 loans. The participant group represented key industry leaders from a cross-section of the country. Peat Marwick's role was to provide a framework for the data gathering and analyses and conduct a seminar for the senior executives of the participating firms. At the seminar, the executives shared their experiences and discussed the strategic and tactical implications of the results. Some of those insights are discussed throughout this article.

Overall cost results

Total servicing costs ranged from $80 to $245 per loan (average of $129) and included core servicing functions, loan losses, various interest expenses and allocated overhead. Chart 1 outlines the relative distribution of the total costs. Note that collateral losses from bad loans (i.e. loan losses) represented 20 percent of the total servicing costs. Loan losses did not include collections or foreclosure processing costs but they did include principal losses from loans sold with recourse, VA no-bids and non-reimbursable outside service expenses.

Core servicing costs ranged from $60 to $125 (average $82) and excluded loan losses, interest expenses and allocated overhead. The customer service and collections and foreclosures departments accounted for 50 percent of core costs.

Most of the analytical work was conducted for each of the 17 servicing functions (e.g. collections and foreclosures, data processing, etc.). However, there were some general observations which applied across all functions.

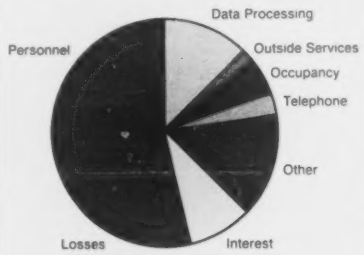
- The underlying loans in the portfolios were distributed as follows: FHA (27 percent), VA (20 percent), conventional fixed (37 percent), conventional adjustables (14 percent) and other (2 percent). Ginnie Mae, Fannie Mae and Freddie Mac accounted for 60 percent of the loans.
- For all participants, the average core servicing costs increased only 2 percent from $80 to $82 per loan between 1986 to 1987. However, for individual participants, core costs changed significantly ranging from an 11 percent decrease to a 21 percent increase. This indicates that the servicing cost equation can change more rapidly than most people expect.
- Loans serviced FTE turned out to be a reasonably good macro predictor of core servicing costs. For the participants in the study, loans serviced per FTE ranged from 450 to 900.
- There was no apparent relationship between core costs and portfolio size indicating that economies of scale probably are limited for these large servicers.
- There was no obvious relationship between total costs and the amount of government loans in the servicing

portfolio. This result runs contrary to conventional wisdom that suggests that government loan servicing is more expensive due to issues such as VA no-bids and regulatory compliance.

CHART 1

Total Cost Components

Bad loan losses (i.e. collateral losses) represent over 20% of total servicing costs.



- There was no general evidence that higher staff compensation contributed to higher productivity.

Collections and foreclosures

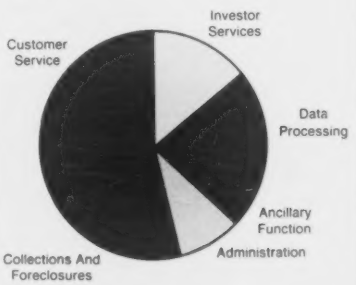
The collections and foreclosures areas contributed an average of $51 to the toal costs per loan (processing costs were $20 per loan and loan losses were $31 per loan). This portion of the study examined cost, productivity and effectiveness measures for the collections, foreclosures, bankruptcies and REO departments. Overall, these functions, including loan losses, accounted for about 40 percent of the total servicing costs. Loan losses, in particular, dominated this portion of the analysis with costs varying widely from $20 to almost $120 per loan. It is clear that many of these servicers have experienced the travails associated with foreclosures in several high-risk states. At the same time, however, they are actively enhancing their management information to provide better insights into the costs and effectiveness of collections and foreclosure efforts. Other observations about this area are profiled next.

- In the collections processing arena, four of the most productive participants (defined as delinquencies process per FTE) used an award or bonus system for their collections staff. Cash bonuses or days off seemed to be the most successful.
- The best standard for effectiveness appeared to be the ratio of 60-day delinquents to 30-day delinquents. Interestingly, there was no apparent relationship between unit processing costs and effectiveness. Stated differently, the companies that spent more per collection effort did not receive materially better collections performance. To counter this result and improve effectiveness, many companies have focused their collections efforts on the customer who is 15 to 30 days delinquent. The intent is to intervene at the earliest possible stage in the delinquency process.
- Automated tracking systems in the foreclosures area were used by four of the five most productive companies (defined as foreclosures completed per FTE). This resulted in more timely information that improved overall quality control and enhanced the claims filing process.
- Reinstatement rates varied from less than 10 percent to more than 60 percent of loans entering foreclosure. Most of the high reinstatement rates were from portfolios with loan concentrations in California where property values provide an incentive for the borrower to avoid the foreclosure process. High reinstatements favorably influence foreclosure productivity and should be part of the management information system.

CHART 2

Core Cost By Function

The customer services and collections and foreclosures departments account for more than 50% of total core costs, that exclude bad loan losses, interest expenses and allocated overhead.



Customer service

The customer service functions contributed an average of $37 to the total servicing costs per loan. These functions encompassed the assumptions, payoffs, taxes, insurance, escrow analysis and customer inquiry units. The customer inquiry function received attention during the participants' seminar. Productivity for this function ranged from 200 inquiries to 1,900 inquiries per FTE per month which indicates that there was significant variability in how this department was structured. Most participants are broadening their definitions of adequate customer service by setting standards for such things as average call length, average wait time, abandonment rate, blockage rate, recalls, transfers, etc. One of the first steps in improving customer service is to define the purpose of an inquiry. Chart 3 highlights the top five reasons for a customer inquiry. With this information, a firm could staff and train the department more effectively.

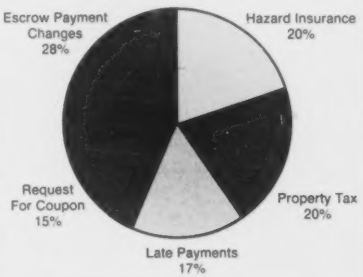
There are some observations about the various customer services functions.

- Tax penalties and interest losses on pool payoffs accounted for 10 percent of customer service costs.
- There was poor information to distinguish between principal and interest advances on delinquent loans and interest losses on pool payoffs. This information is useful in determining servicing costs by product which is critical for overall product profitability analyses.

CHART 3

Top Five Customer Inquiry Reasons

The volume of customer inquiries can be reduced by pro-actively addressing questions regarding changes in escrow payments. Forty-four percent of study participants indicated that escrow payment changes were the number one reason for calling, while all of them said it was among the top five reasons.



Data processing (DP) costs contributed an average of $17 to total servicing costs per loan, but they varied from $7 to $44 per loan among the participants. The key question was whether additional DP costs improved servicing productivity or quality of

service. Based on a series of analyses, there was no apparent beneficial relationship between increased data processing expenditures and overall servicing costs. In addition, there was no apparent beneficial relationship between increased data processing costs and general servicing productivity. We also contrasted DP cost per loan with the software systems used. In general, participants that accepted the inherent restrictions of software packages and service bureaus had more consistent and usually lower DP costs. Overall, most participants agreed that DP costs require strict control and thoughtful justification because the incremental expenses do not seem to generate adequate benefits.

The following comments represent findings from the other areas covered in the survey.

- *Investor services and cashiering*—It appears that computer software design has more impact on investor reporting productivity than management experience, staff turnover or staff compensation.
- *Investor services and cashiering*—Investor accounting costs can be dramatically affected by bank fees for custodial accounts. Most participants do not have adequate data to assess the cost of bank fees relative to the value of compensating balances.
- *Ancillary functions*—Record retention expenses were more consistent and generally lower if off-site storage was used to some extent.
- *Ancillary functions*—The use of film/fiche as a storage medium seems to make costs more difficult to control. However, reductions in staff and storage spaces as well as improved response to file requests should be part of the equation before conclusions are reached.

Major messages

Treat the servicing department as a profit center not a cost center. That is one major message from MSPS that is transferable to financial institutions and mortgage companies with small to medium servicing portfolios. Within the profit center context, there are serveral ideas and perceptions that are important.

- Detailed cost and performance information represents opportunities for improvement. It does not represent a threat to job security.
- The servicing executive should be involved in product development and other production-related decisions to contribute information about product profitability and the impact on servicing costs.
- The servicing department has repeated contact with many customers through such areas as customer inquiries, billing statements, escrow services, etc. That contact presents a company image that can provide benefits to an aggressive institution.
- Finally, the servicing executive must deal with a myriad of operations, finance and industry-related issues. The executive should have a framework to detect early warnings of impending problems by closely monitoring trends. That framework is extremely valuable because production could be re-focused or the servicing portfolio could be restructured to avoid excessive financial exposure. **MB**

Gregory Baldridge is a senior manager in KPMG Peat Marwick's San Francisco office. He is one of the firm's leading consultants to the mortgage banking industry.

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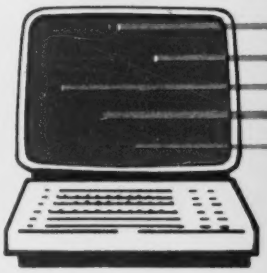

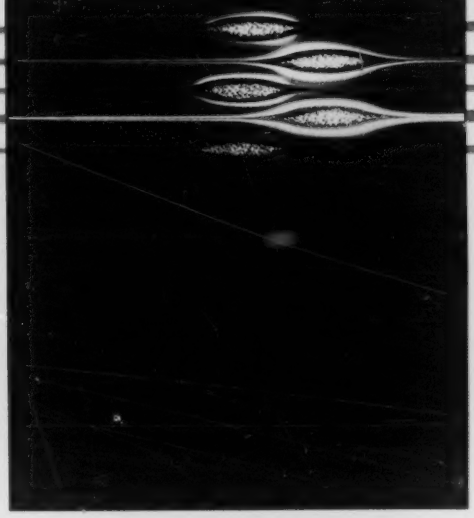

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Individual competence ranks high in a Realtor's selection of a lender.

The Mind of the REALTOR

Ongoing market-driven relationships between lenders and real estate agents are experiencing stresses that are not yet fully defined. Lenders have emphasized service as an important strategy for coping with some of these sweeping changes. Have traditional attitudes changed? What factors contribute most heavily to the relationship?

A recent survey in four active housing markets, from Boston to Orlando, clearly shows that a remarkably strong consensus exists on the relative importance of many aspects of lenders' service. Behind this consensus, however, attitudinal differences toward individual lenders within each market display a pattern that is seldom examined by lending institutions, including mortgage bankers.

The telephone survey—conducted in November and December 1988 among 1,200 Realtors—was designed to provide lenders in each market with in-depth comparative data on how they and their competitors are perceived by licensed real estate brokers. The survey also explored important factors that influence the effectiveness of loan officers.

Eight in ten Realtors noted the importance of loan officers and recommended that they would probably follow a loan officer to another institution if they were well satisfied with his or her performance. This view is equally strong in each area surveyed: Boston, Philadelphia, Washington, and Orlando (See Table 1). It is also substantially similar regardless of the real estate company's size.

Realtors, when deciding what is most important about a lender, confirm many conclusions of the 1986 Mortgage Bankers Association national survey of 426 active Realtors. But the relative "extreme" importance of the highest factor—speed of processing—is seven times greater than that of the lowest—affiliation with a national company. This pattern is consistent within all markets and among most Realtors. Interestingly, the smallest firms generally rank all factors higher than medium-sized firms, and in Philadelphia the lender's reputation is as important as the rates.

The actual loan rate charged is equal in importance to a factor not explored in the earlier survey: how well the lender's underwriting guidelines accommodate the majority of customers. The percentage of Realtors who regard each factor as "extremely important" is shown in Table 2.

The core of the survey examined

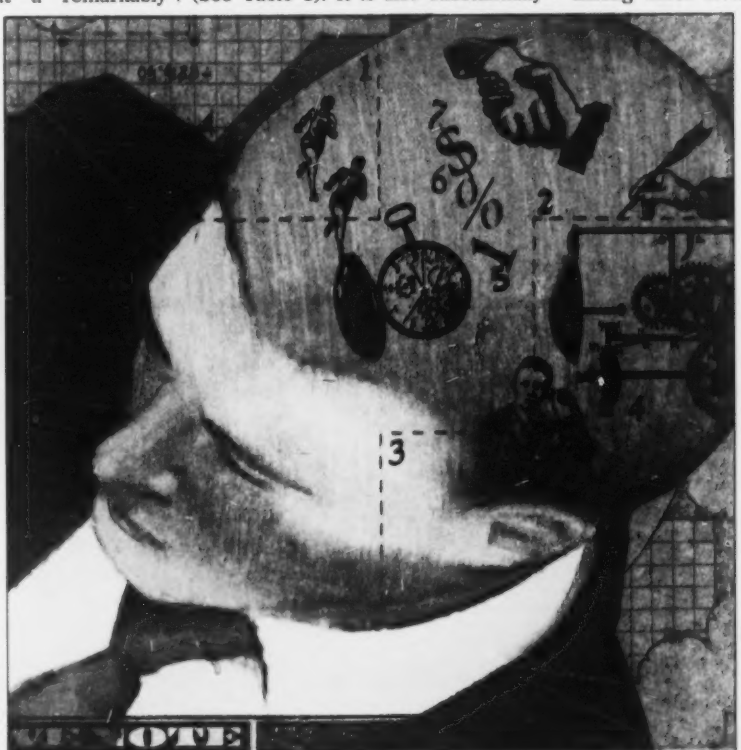

ILLUSTRATION BY LISA CHESAK

John C. Campbell and Donald W. Lief

Realtors' recent experiences with individual lending institutions. When asked to grade (A through F) a lender with whom they had worked during the previous six months, response rates were extremely high—often above 90 percent. Each lender was graded on most of the factors already determined to be important.

At the same time, however, an extremely high number of Realtors could or would not name individual lenders according to the same criteria (e.g., responsiveness, speed of processing, loan rates).

Lending officer qualities

Realtors also graded lending officers of the same institutions with which they had recent experience. The message is that, above all, a successful loan officer must be knowledgeable. More than 80 percent of respondents in Orlando, Washington and Boston called this characteristic "extremely important," substantially overshadowing other qualities. Friendliness of the loan officer is the least "extremely" important, at about 40 percent in the four markets. These factors are compared in Table 3.

Again, behind the overwhelming four-market consensus, distinctions can be made. In Orlando, both the smallest and largest firms are most positive about these lending officer qualities; in Philadelphia, the larger firms think far more highly of them.

Real estate agents continue to make frequent referrals of customers to lenders but there may be warning signals of a possible declining trend in referrals. About 60 percent of Realtors recommend a source for at least three-fourths of their customers. The practice ranges from 53 percent in Boston to 64 percent in Washington. This compares with the 90 percent rate of at least one recommendation determined in the 1986 MBA survey.

The 1986 survey reported that 81 percent of the Realtors believed that their recommendations were always followed by the homebuyer. In contrast, the four-market 1988 survey asked about the success rate of these referrals. The results vary widely: from Boston's 45 percent to Washington's 66 percent, among those whose recommendations led to financing at least 75 percent of the time.

Whether this represents a trend was not the subject of the study. The data may also reflect increased efforts by many lenders to reach borrowers directly instead of through intermediaries.

Within markets, the survey reveals distinct patterns. In Boston, the smallest firms—fewer than 25 residential sales in six months—are more likely to recommend financing sources, possibly because first-time homebuyers

TABLE 1

Realtor-Lending Officer Links Are Strong

(Percent of Realtors who would continue referrals)

Orlando	79%
Philadelphia	76%
Washington	80%
Boston	78%

TABLE 2

Factors Influencing Realtor-Lender Relationships

(Percent of "extremely important" responses)

	Orlando	Boston	Washington	Philadelphia
Speed of Processing	68%	70%	66%	75%
Guidelines Meet Needs Of Customers	61	62	63	59
Rates Charged	58	68	60	55
Points	57	53	61	52
Variety Of Loans	53	55	50	37
Reputation	49	50	48	53
Convenient Hours	47	37	40	40
Location	18	18	14	12
National Affiliation	10	9	8	8

TABLE 3

Importance of Lending Officer Qualities

(Percent of "extremely important" responses)

	Orlando	Boston	Washington	Philadelpia
Knowledgeable About Loan Types	85%	86%	82%	65%
Accessibility	68	72	72	67
Eagerness To Have Application Approved	57	62	58	59
Creativity	55	66	59	50
Detail-oriented	51	59	58	59
Friendliness	44	44	40	42

TABLE 4

Weak Identification of Lending Firms

(Percentage of responses for most-frequently named institution)

	Orlando	Boston	Washington	Philadelphia	Percent Non-Response
Responsive	7.6%	13.9%	16%	14.3%	46%
Error-prone	3.3	1.9	2.7	5.2	69
Aggressive	6.2	6.8	10.4	9.1	50
Lengthy Application Process	2.8	4.2	2.7	4.8	68
Knowledgeable	5.7	7.4	10.7	7.8	50
Inconvenient To Deal With	3.3	3.9	1.9	3.0	73
Excellent Reputation	8.1	12.9	13.9	9.6	48
Competitive Rates	3.3	5.2	7.7	7.4	54
Reliability of Loan Officers	5.2	8.7	10.9	8.7	49
Slow Processing Time	3.8	4.9	4.8	5.7	67

are a comparatively larger share of their business. Their referrals, however, result far more often in conventional loans rather than FHA or VA-insured mortgages. Less than 2 percent of all Boston Realtors report FHA-insured loans as being more than half their business.

The survey's primary purpose was to investigate Realtors' perceptions of and experiences with leading lenders in each market. Each sponsor received detailed comparative information and each provided private questions that were asked as part of the survey interview. Responses—including open-ended—were correlated and analyzed in relation to the public questions.

Many private questions dealt with even more detailed comparisons of satisfaction with competing lenders. A substantial number of private questions assessed Realtor attitudes toward programs providing fees for referrals.

In addition, the survey asked Realtors about current and prospective business activity in their markets. Their answers, on the whole, present a highly optimistic view of the housing industry in upcoming months.

As additional surveys are conducted within other markets, a fuller picture of the enduring Realtor-lender relationship will emerge. **MB**

Lenders' Name Recognition is Flawed Among Realtors

Responses to the survey's questions were typically in the 80 to 95 percent range. A conspicuous exception came when Realtors were asked to name lending institutions that came to mind in relation to a variety of words. The response rate plunged: Some questions drew as few as 28 percent. Despite this, the statistical pattern of non-responsiveness was almost totally consistent among different questions and markets.

Why would Realtors not identify lending institutions in terms such as "responsive," "knowledgeable," "inconvenient to deal with" or "slow processing time?" One obvious conclusion is that lenders have done a poor job of positioning themselves in their relationships with Realtors.

There is some supporting evidence for this interpretation. Although very few lenders were identified by even 10 percent of the real estate agents, each housing market found a single lender to be clearly most visible among Realtors.

In Orlando and Boston, one lender came in first in six of the ten questions. In Washington, two lenders were mentioned most in four of the factors. In Philadelphia, Realtors gave the top spot in all 10 to the same lender. It is intriguing that the questions included positive and negative characteristics.

John C. Campbell is president of Campbell Communications, Inc., Bethesda, Maryland, a public relations and marketing company with corporate and association clients in the real estate finance industry. Donald W. Lief, APR, a senior associate of Campbell Communications, Inc., heads its Relatek Information Group specializing in relationship market research, including surveys that measure significant business-to-business relationships.

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VITAL STATISTICS

INTEREST RATES & YIELDS

1- TO 4-FAMILY MORTGAGES

1988	FHA OPINION SURVEY	FHLBB			FNMA		FHLMC	
	FHA New Homes[1]	CONVENTIONAL[2] FRM	ARM	Median Cost of Funds FSLIC Institutions	1-Yr. ARM	FRM Conv.	ARMs	FRMs
SEP	10.66%	10.64%	8.51%	7.21%	8.99%	10.25%	8.14%	10.48%
OCT	10.41	10.69	8.58	7.29	8.86	9.97	8.12	10.30
NOV	10.43	10.54	8.76	7.35	9.13	10.22	8.16	10.27
DEC	10.72	10.53	8.78	NA	9.39	10.59	8.40	10.61
JAN	**NA**	**10.62**	**8.84**	**NA**	**9.46**	**10.59**	**8.55**	**10.73**

SELECTED SECURITIES

1988	FEDERAL FUNDS RATE	PRIME COMMERCIAL PAPER (3-Month)	U.S. GOVERNMENT 6-Month	1-Year	3-Year	10-Year	A-Rated Utility
OCT	8.30%	8.24%	7.50%	8.11%	8.43%	8.80%	10.11%
NOV	8.35	8.66	7.86	8.48	8.72	8.96	10.12
DEC	8.76	9.11	8.22	8.99	9.11	9.11	10.08
JAN	**9.12**	**9.04**	**8.36**	**9.05**	**9.20**	**9.09**	**10.09**

CURRENT SECONDARY MARKET YIELDS

1988	GNMA[3]	FNMA[3]	FHLMC[3]
OCT	9.96%	9.97%	9.95%
NOV	9.98	9.91	9.89
DEC	10.26	10.24	10.22
JAN	**10.34**	**10.30**	**10.30**

SPREADS

(Basis Points)

	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
OCT	116	117	115
NOV	102	95	93
DEC	115	113	111
JAN	**125**	**121**	**121**

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

1988	FNMA Portfolio Commitments	FNMA Portfolio Purchases	FNMA Mortgage-Backed Securities Outstanding	FNMA Mortgage-Backed Securities Issued	FHLMC Commitments To Sell	FHLMC Commitments To Buy	FHLMC Mortgages Purchased	FHLMC Mortgages Sold	GNMA Pass-Through Securities Applications	GNMA Pass-Through Securities Issued
SEP	$1,439	$1,111	$167,170	$5,622	$4,234	$6,208	$4,192	$3,728	$5,975	$5,684
OCT	1,740	1,488	170,395	4,772	3,983	4,406	4,037	3,674	5,599	5,823
NOV	1,289	1,596	174,278	5,405	4,806	5,419	4,109	4,231	6,380	3,886
DEC	**1,350**	**1,726**	**178,250**	**5,434**	**NA**	**NA**	**NA**	**NA**	**3,719**	**4,856**
1988 TOTAL	23,435	23,110	---	54,878	NA	NA	NA	NA	58,579	56,532
1987 TOTAL	25,415	20,531	---	63,230	68,210	76,615	76,840	75,018	116,611	96,983
12 MONTH AVG.[4]										
1988	1,953	1,926	---	4,573	3,483	5,084	3,476	3,115	4,882	4,711
1987	2,118	1,711	---	5,269	6,008	6,999	6,689	6,529	9,718	8,082
1986	2,749	2,569	---	5,047	8,909	11,985	8,379	8,259	12,742	8,181

HOUSING ACTIVITY

RESIDENTIAL STRUCTURES

(Units in Thousands, Seasonally Adjusted Annual Rates)

	BY TYPE OF UNIT						BY REGION							
	HOUSING STARTS			BUILDING PERMITS			HOUSING STARTS				BUILDING PERMITS			
1988	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Northeast	Midwest	South	West	Northeast	Midwest	South	West
SEP	1,467	1,106	361	1,394	1,049	345	208	259	573	427	192	251	547	404
OCT	1,533	1,199	334	1,516	1,110	406	200	271	583	479	218	262	564	472
NOV	1,558	1,205	353	1,516	1,129	387	224	263	611	460	205	245	573	493
DEC	**1,524**	**1,180**	**344**	**1,544**	**1,145**	**399**	**179**	**329**	**589**	**427**	**192**	**360**	**550**	**442**
1988 TOTAL	1,487	1,139	348	1,460	1,082	378	235	273	575	405	232	268	546	413
1987 TOTAL	1,621	1,212	409	1,535	1,114	421	269	298	634	420	272	282	575	406
12 MONTH AVG. (SAAR)														
1988	1,491	1,147	344	1,449	1,079	370	241	273	572	406	235	269	539	406
1987	1,634	1,222	412	1,543	1,122	421	272	309	632	421	275	289	572	406
1986	1,812	1,268	545	1,771	1,185	586	299	300	731	483	282	291	686	512

HOME SALES

(Units in Thousands)

	EXISTING HOMES			NEW HOMES		
1988	Sold (SAAR)	Available for Sale	Months Supply At Current Sales Rate	Sold (SAAR)	Available for Sale	Months Supply At Current Sales Rate
SEP	3,670	2,420	7.9	691	361	6.5
OCT	3,670	2,925	7.4	722	354	6.0
NOV	3,670	2,550	8.3	665	364	6.8
DEC	**4,090**	**2,080**	**6.1**	**669**	**366**	**6.7**
1988 TOTAL	3,630	---	---	677	---	---
1987 TOTAL	3,526	---	---	671	---	---
12 MONTH AVG. (SAAR)						
1988	3,593	---	---	678	---	---
1987	3,526	---	---	671	---	---
1986	3,563	---	---	745	---	---

VALUE OF NEW PRIVATE CONSTRUCTION PUT IN PLACE

(Units in Billions of 1982 Dollars, Seasonally Adjusted Annual Rates)

	Total[5]	1–Unit	2+ Units	Nonresidential
SEP	$283.3	$103.2	$19.3	$76.6
OCT	285.5	104.7	19.1	77.7
NOV	286.9	106.7	19.0	77.7
DEC	**289.9**	**107.8**	**18.6**	**80.2**
1988 TOTAL	282.0	103.6	19.3	78.1
1987 TOTAL	283.0	100.7	22.4	78.2
12 MONTH AVG. (SAAR)				
1988	283.0	103.6	19.2	77.9
1987	282.4	100.6	22.5	78.1
1986	281.3	91.6	27.9	80.0

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED
By Type of Institution and By Type of Unit
(Dollars in Millions)

	1-4 UNITS					5+ UNITS					NONRESIDENTIAL				
1988	Total[6]	Mortgage Bankers	Savings & Loans[7]	Commercial Banks	Life Companies	Total[6]	Mortgage Bankers	Savings & Loans[7]	Commercial Banks	Life Companies	Total[6]	Mortgage Bankers	Savings & Loans[7]	Commercial Banks	Life Companies
JUL	$35,244	$7,685	$17,341	$9,514	$393	$3,631	$837	$1,593	$688	$372	$14,249	$128	$1,911	$10,374	$1,673
AUG	39,541	9,057	20,232	9,537	336	3,368	278	1,918	609	394	15,740	156	2,175	11,021	2,244
SEP	36,328	8,690	18,176	8,737	342	3,405	259	1,933	550	351	10,585	117	1,938	6,263	2,131
OCT	**30,578**	**6,273**	**16,053**	**7,586**	**332**	**2,707**	**327**	**1,559**	**344**	**247**	**15,669**	**84**	**2,037**	**10,501**	**2,936**
1987 TOTAL	449,544	110,093	208,054	124,551	3,209	44,981	2,409	22,492	8,299	3,547	168,652	2,871	25,613	110,490	28,160
1986 TOTAL	455,054	131,628	207,182	108,613	3,814	49,868	7,172	22,769	7,176	3,723	147,374	4,084	27,306	83,929	29,906
10 MONTH AVG. 1988	31,426	7,342	15,503	7,980	252	2,996	352	1,632	546	283	14,432	79	1,907	10,154	2,102
1987	39,288	9,806	17,950	10,953	287	3,880	216	1,874	709	284	13,329	268	2,061	8,815	2,129
1986	36,609	10,634	14,314	8,551	311	3,847	606	1,471	558	284	10,727	308	2,041	6,180	2,028

MORTGAGE INSURANCE
(Units in Thousands, Dollars in Millions)

	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
1988	TOTAL	FHA[8]	VA	PRIVATE	TOTAL		FHA		VA		PRIVATE	
					Units	Amount	Units	Amount	Units	Amount	Units	Amount
SEP	141	72	19	50	117	$8,732	59	$3,655	20	$1,505	38	$3,572
OCT	135	70	19	46	129	9,468	75	4,642	18	1,389	36	3,437
NOV	**126**	**69**	**17**	**40**	**92**	**7,006**	**41**	**2,535**	**18**	**1,334**	**33**	**3,137**
DEC	**116**	**58**	**18**	**40**	**106**	**7,846**	**57**	**3,501**	**18**	**1,368**	**31**	**2,977**
1988 TOTAL	1,753	949	210	595	1,421	102,636	776	47,204	211	15,772	434	39,660
1987 TOTAL	2,340	1,211	408	721	2,282	159,668	1,320	81,881	451	33,312	511	44,475
12 MONTH AVG. 1988	146	79	18	50	111	8,167	58	3,548	18	1,314	35	3,305
1987	195	101	34	60	190	13,306	110	6,823	38	2,776	43	3,706
1986	273	159	34	77	154	10,646	77	4,742	29	2,060	49	3,845

NA—Not Available; SAAR—Seasonally Adjusted Annual Rate

[1]Secondary market gross yields. Numbers shown for each month are the average of yields from the first day of the month shown and the first day of the subsequent month.

[2]Effective rate on loans closed.

[3]Securities for 0 to 30 day delivery.

[4]Average covers one month less for FHLMC.

[5]In addition to the categories of private construction shown, the total also includes these categories: residential improvements, railroads, electric light and power, gas, telephone and telegraph, petroleum pipelines, and farm nonresidential.

[6]In addition to the categories shown, the total also includes private pension funds, private MBS conduits, state and local retirement funds, Federal credit agencies, mortgage pools, and state and local investment agencies.

[7]Savings & Loans and Mutual Savings Banks.

[8]FHA applications received includes the Direct Endorsement Program.

NOTE

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Cov. 1, Pgs. 3, 4, 31, 33,

34, 82-84